

UNIVERSITY COLUMNS

Natchitoches, Louisiana

Financial Report

Years Ended June 30, 2013 and 2012

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Darnall, Sikes, Gardes & Frederick

(A Corporation of Certified Public Accountants)

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Independent Auditor's Report

The Board of Directors
University Columns
Natchitoches, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of University Columns, as of and for the years ended June 30, 2013 and 2012, which comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those

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risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Columns as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2013 on our consideration of the University Column's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Dannall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana
December 19, 2013

BASIC FINANCIAL STATEMENTS

UNIVERSITY COLUMNS

Statements of Net Position June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash	\$ 193,093	\$ 155,127
Rents and fees receivable, net	50,521	76
Cash - restricted	86,818	91,741
Prepaid expenses	41,099	40,643
	<u>371,531</u>	<u>287,587</u>
 PROPERTY AND EQUIPMENT, at cost	7,228,578	7,172,390
Less: accumulated depreciation	<u>(3,762,862)</u>	<u>(3,587,599)</u>
	<u>3,465,716</u>	<u>3,584,791</u>
 OTHER ASSETS		
Due from affiliates	<u>1,301,530</u>	<u>208,818</u>
	<u>1,301,530</u>	<u>208,818</u>
 TOTAL ASSETS	<u>5,138,777</u>	<u>4,081,196</u>
 LIABILITIES		
Accounts payable	505,856	427,850
Intercompany accounts payable	145,408	147,828
Accrued interest payable	210,734	208,738
Deferred rent revenue	3,756	3,200
Security deposits	40,782	65,016
TOTAL LIABILITIES	<u>906,536</u>	<u>852,632</u>
 NET POSITION		
Invested in capital assets, net of debt	4,556,512	3,584,871
Unrestricted	<u>(324,271)</u>	<u>(356,307)</u>
Total net position	<u>\$ 4,232,241</u>	<u>\$ 3,228,564</u>

The accompanying notes are an integral part of this statement.

UNIVERSITY COLUMNS

Statements of Revenues, Expenses and Changes in Net Position Years Ended June 30, 2013 and 2012

	2013	2012
SUPPORT AND REVENUES		
Apartment rent	\$ 2,476,361	\$ 2,374,626
Fee income	103,923	62,567
Interest income	4,678	4,678
Miscellaneous	49,564	31,412
Total support and revenues	<u>2,634,526</u>	<u>2,473,283</u>
OPERATING EXPENSES		
Advertising	8,616	16,532
Bad debts	22,915	83,556
Contract services	124,241	104,291
Depreciation	175,263	169,473
Insurance	84,788	100,940
Interest expense	6,674	20,887
Management fee	127,564	122,492
Meals and entertainment	906	1,065
Miscellaneous	11,353	20,346
Office expense	3,029	787
Payroll taxes	17,840	20,537
Postage	317	302
Professional fees	46,755	35,032
Rent	435,121	359,906
Repair and maintenance	93,590	93,084
Salaries	195,894	248,074
Supplies	24,515	27,381
Telephone	8,076	8,236
Training	164	126
Travel	9,998	9,091
Utilities	233,230	273,769
	<u>1,630,849</u>	<u>1,715,907</u>
INCREASE IN NET POSITION	1,003,677	757,376
Total net position, beginning of year	<u>3,228,564</u>	<u>2,471,188</u>
Total net position, end of year	<u>\$ 4,232,241</u>	<u>\$ 3,228,564</u>

The accompanying notes are an integral part of this statement.

UNIVERSITY COLUMNS

Statements of Cash Flows Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from students and users	\$ 2,557,044	\$ 2,456,425
Interest received	4,678	4,678
Payments to suppliers	(1,161,367)	(975,357)
Payments to employees and related benefits	(213,734)	(248,074)
Interest paid	(4,678)	(25,343)
Net cash provided by operating activities	<u>1,181,943</u>	<u>1,212,329</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(56,188)	(26,624)
Net cash used by investing activities	<u>(56,188)</u>	<u>(26,624)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Increase) decrease in notes to/from affiliates	(1,092,712)	(1,157,307)
Net cash used by financing activities	<u>(1,092,712)</u>	<u>(1,157,307)</u>
Net increase in cash and cash equivalents	33,043	28,398
CASH AND CASH EQUIVALENTS, beginning of year	<u>246,868</u>	<u>218,470</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 279,911</u>	<u>\$ 246,868</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,003,677	\$ 757,376
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Bad debts	22,915	83,556
Depreciation	175,263	169,473
(Increase) decrease in:		
Rent and fees receivable	(73,360)	(5,203)
Prepaid expenses	(456)	(4,714)
Increase (decrease) in:		
Accounts payable	78,006	227,651
Intercompany accounts	(2,420)	4,650
Interest payable	1,996	(4,456)
Deferred rent revenue	556	(6,977)
Security deposits payable	(24,234)	(9,027)
Net cash provided by operating activities	<u>\$ 1,181,943</u>	<u>\$ 1,212,329</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE STATEMENT OF NET ASSETS:		
Cash and cash equivalents, end of year		
Cash - unrestricted	\$ 193,093	\$ 155,127
Cash - restricted	86,818	91,741
Total cash and cash equivalents	<u>\$ 279,911</u>	<u>\$ 246,868</u>

The accompanying notes are an integral part of this statement.

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

University Columns provides student housing to students on the campus of Northwestern State University, Natchitoches, Louisiana. University Columns apartment complex is managed under contract by Campus Living Villages Fund (Campus), a student housing organization based in Australia. All personnel employed in the leasing, management, maintenance and operation of University Columns are employees of Campus.

Financial Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of University Columns. There are no component units of the University Columns.

Fund Accounting

The accounts of University Columns are organized and operated on a fund basis whereby a separate self-balancing set of accounts that comprise its assets, liabilities, net assets, revenues and expenses is maintained for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or regulations. University Columns is presented in the accompanying financial statements as follows:

PROPRIETARY FUND –

The focus of Enterprise fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Enterprise fund is accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of University Columns are leases and rents. The operating cost of the enterprise fund is all costs associated with the operation of University Columns. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets net of accumulated depreciation and reduced by the outstanding balance of any

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Management used unrestricted assets only when restricted assets are fully depleted.

Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounts refers to “when” transactions are recorded regardless of the measurement focus applied.

The Enterprise fund utilized an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Encumbrance Accounting

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not employed by University Columns.

Depreciation

Depreciation is calculated over the estimated useful lives of the respective assets using the straight-line method.

Maintenance, Capitalization, and Disposal Policies

Repairs and maintenance are expensed as incurred. Expenditures incurred in the construction or that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the asset’s carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows

For the purpose of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid interest-bearing deposits with a maturity of three months or less when purchased.

Use of Estimates

Preparation of University Columns' financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loan Costs

Loan costs are being amortized on a straight line basis over the term of the related loan.

NOTE 2 CASH AND CASH EQUIVALENTS

	<u>2013</u>	<u>2012</u>
Unrestricted:		
J. P. Morgan Chase - operating	\$ 130,871	\$ 85,560
J. P. Morgan Chase - rent receipts	<u>62,222</u>	<u>69,567</u>
Total unrestricted	<u>193,093</u>	<u>155,127</u>
Restricted:		
J.P. Morgan Chase - security deposits	<u>86,818</u>	<u>91,741</u>
Total restricted	<u>86,818</u>	<u>91,741</u>
Total cash and cash equivalents	<u>\$ 279,911</u>	<u>\$ 246,868</u>
	<u>Bank Balance</u>	<u>Bank Balance</u>
	<u>2013</u>	<u>2012</u>
Unrestricted:		
J. P. Morgan Chase - operating	\$ 222,249	\$ 119,820
J. P. Morgan Chase - rent receipts	<u>2,000</u>	<u>30,300</u>
Total unrestricted	<u>224,249</u>	<u>150,120</u>
Restricted:		
J. P. Morgan Chase - security deposits	<u>79,295</u>	<u>93,513</u>
Total restricted cash and cash equivalents	<u>79,295</u>	<u>93,513</u>
Total cash and cash equivalents	<u>\$ 303,544</u>	<u>\$ 243,633</u>

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 3 PROPERTY AND EQUIPMENT

Category	Cost	Estimated Useful Lives
Building	\$ 5,618,808	40 years
Streets, sidewalks and pool	602,226	40 years
Fences, gates and signs	130,491	15 years
Interior fixtures	209,994	5 years
Furniture and lighting	136,718	10 years
Equipment	<u>530,341</u>	10 years
Total depreciable assets	7,228,578	
Less: Accumulated depreciation	<u>(3,762,862)</u>	
Net depreciable assets	<u>\$ 3,465,716</u>	

NOTE 4 RELATED PARTY TRANSACTIONS

A monthly management fee of 5% of gross revenues is paid to a related part as compensation for running the daily operations of the apartment complex. The amount recorded as due to related parties includes costs paid on behalf of the complex by related parties for management fees, expenses and construction.

NOTE 5 COMMITMENTS

Campus has built and operates the apartment complex on land leased from Northwestern State University of Louisiana at Natchitoches. The lease expires on September 1, 2034. The annual rent is equal to an annual base rent of \$1,000 plus an amount equal to 25% of the fund's net cash flow as defined in the ground lease agreement. Additionally, an annual rental of 5% of the net cash flow is to be paid to the improvements owner, an organization in connection with the project. All furniture, fixtures and equipment permanently affixed to the land become the property of Northwestern State University at Natchitoches, Louisiana upon expiration of the lease. However, at any time during the term of the lease, Northwestern State University at Natchitoches, Louisiana, has the right to purchase the complex at a purchase price as defined in the ground lease agreement.

NOTE 6 RELATED PARTY LOANS

A loan procedure exists whereby, the complex cash flows, after the payment of percentage rent to the Lessor, are made available to support the payment of the Project Mortgage and Permitted Mortgages of other affiliated partnerships with interest at 10% per annum. At June 30, 2013, \$2,167,822 is owed by affiliates under this loan procedure.

There is a note obligation to an affiliate with interest at an effective rate of 3% per annum. Unpaid scheduled principal and interest, if any, do not accrue further interest. The note is payable monthly from the cash flow after payment of all project costs and expenses, the Project Mortgage, related party loans, percentage rent to the Lessor and advances under related party loan procedures.

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 6 RELATED PARTY LOANS (Continued)

The Complex is a co-obligor with other affiliated entities on notes and accrued interest to an affiliate and is a contingent beneficiary or is contingently liable on such notes. Once the note is current, any excess cash flow is made available as loans to support the payment of the notes of other affiliated companies. The amount of outstanding principal on the note is \$866,292 at June 30, 2013.

NOTE 7 FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy requires the entity to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing methods, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following methods and assumptions were used by University Columns in estimating fair values of financial instruments as disclosed herein:

Cash and interest-bearing deposits—The carrying amount of cash and short-term instruments approximate their fair value.

Accounts receivables and other current assets—These items are recorded at amounts that approximate fair value due to their short term nature.

Accounts Payable and other accrued liabilities—These items are recorded at amounts that approximate fair value due to their short term nature.

Long-term debt—The carrying amounts of all long-term debt instruments approximate fair value.

UNIVERSITY COLUMNS

Notes to Financial Statements

NOTE 8 SUBSEQUENT EVENTS

For the year ended June 30, 2013 University Columns has evaluated subsequent events through December 19, 2013, the date these financial statements were available to be issued.

NOTE 9 TAX STATUS

University Columns falls under Louisiana Revised Statute Title 17 Education. Accordingly, no provision is required for income taxes.

INTERNAL CONTROL AND COMPLIANCE

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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To the Board of Directors of
University Columns
Natchitoches, Louisiana

We have audited the financial statements of the business-type activities of University Columns as of and for the year ended June 30, 2013 and have issued our report thereon dated December 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered University Columns' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of University Columns' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University Columns' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Dannall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Eunice, Louisiana
December 19, 2013

UNIVERSITY COLUMNS

Summary of Prior Year Findings
Year Ended June 30, 2013

There are no prior year audit findings.

UNIVERSITY COLUMNS

Schedule of Findings and Questioned Costs Year Ended June 30, 2013

Part I Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report – Financial Statements

An unqualified opinion has been issued on University Columns' financial statements as of and for the year ended June 30, 2013.

Significant Deficiencies and Material Weaknesses - Financial Reporting

There were no reportable conditions in internal control over financial reporting noted during the audit of the financial statements.

Material Noncompliance - Financial Reporting

The results of our tests disclosed no instances of noncompliance which are required to be reported under *Government Auditing Standards*.

FEDERAL AWARDS

This section is not applicable for the fiscal year ended June 30, 2013.

Part II Findings Relating to an Audit in Accordance with *Government Auditing Standards*

There were no reportable conditions or instances of material noncompliance noted during the audit.

Part III Findings and Questioned Costs Relating to Federal Programs

This section is not applicable for the fiscal year ended June 30, 2013.